

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7957

BILL NUMBER: SB 578

NOTE PREPARED: Jan 19, 2005

BILL AMENDED:

SUBJECT: State bonding entities and broadband development.

FIRST AUTHOR: Sen. Hershman

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill has the following provisions:

(A) It establishes the Finance Authority (the Authority).

(B) It provides that the Board of the Authority shall serve as the governing body for certain bond issuing entities or shall review and approve financings by certain other bond issuing entities.

(C) It provides that certain laws concerning the organization and operation of existing bond issuing entities are superseded when the Board of the Authority is serving as the governing body of a bond issuing entity.

(D) It authorizes the Authority to issue bonds and notes.

(E) It establishes a Broadband Development Program to be administered by the Broadband Development Authority and authorizes the Development Finance Authority to issue bonds and notes and lend proceeds to the Broadband Development Authority for the purpose of expanding broadband infrastructure services to residential, commercial, public, and nonprofit customers.

(F) Legalizes bonds, notes, contracts, and obligations previously issued or entered into by certain bonding entities.

Effective Date: Upon passage.

Explanation of State Expenditures: *Indiana Finance Authority:* This bill addresses financial entities created by the General Assembly that are public bodies corporate and politic, and separate from the state. To the extent that these entities are separate from the state, the bill would not have fiscal impact on state government. However, the state may enter into lease or use and occupancy agreements with these entities to provide revenue to the entities to repay bond holders, or the state may have moral obligations (but no requirement) to repay bonds if the entity is unable to pay. Therefore, benefits from management and market efficiencies that are achieved by the financial entities affect costs to the state. The costs or savings of any efficiencies provided by unifying bonding function into a single entity is indeterminable. The costs or savings of the proposal would be based on the actions of the Governor, of the state as lessor, and of the General Assembly by appropriating funds.

Indiana Broadband Development Authority and the Indiana Broadband Development Program: The establishment of the Indiana Broadband Development Authority as a separate body corporate and politic is not expected to have significant fiscal impact on the state.

Background for the Indiana Finance Authority: The Indiana Constitution does not allow the state to undertake debt except in certain circumstance. The General Assembly has established financial entities that are separate from the state, but undertake debt financing for governmental purposes. Under the bill, the governing bodies of these financial entities would be superseded by the Board of the Indiana Finance Authority or subject to review and approval by the Authority's Board on issuance of debt.

The Indiana Finance Authority is established under the bill to consolidate into a single body decision-making concerning access to the capital and financial markets in the name of, or for the benefit of, the state. The Indiana Finance Authority, a separate body corporate and politic, would have a Board of Directors consisting of five members including the Governor, the Budget Director or a designee, and three other members appointed by the Governor. The members are entitled to reimbursement for travel and other expenses, the president is compensated as determined by the Board, and other staff are compensated as determined by the president. The Board will meet at the call of the chairperson (the Budget Director) or at the request of two members. Each member must execute a surety bond of \$25,000 or the chairperson may execute a blanket surety bond covering every member and any employees.

The Indiana Finance Authority would issue bonds or notes, through public or private sale, that are exempt from state taxes. The proceeds of the bonds or notes may be lent for any purpose that a controlled entity would borrow for or for the state revolving fund program. The Board may establish and maintain a reserve fund for one or more issues of bonds or notes.

For the entities below, the Board of the Indiana Finance Authority would act as the governing body, having the powers and authority granted to and the duties assigned the governing body:

- 1) Indiana Development Finance Authority - IC 4-4-11-4.
- 2) State Office Building Commission - IC 4-13.5-1-1.5.
- 3) Indiana Health Facility Financing Authority - IC 5-1-16-2.
- 4) Indiana Housing Finance Authority - IC 5-20-1-3.
- 5) Indiana Transportation Finance Authority - IC 8-9.5-8-2.
- 6) Recreational Development Commission - IC 14-14-1-7.
- 7) Indiana Educational Facilities Finance Authority - IC 20-12-63-4.

The Indiana Finance Authority would review and approve issuance of obligations for the following entities:

- 1) Intelenet Commission - IC 5-21-4.
- 2) Indiana Economic Development Corporation - IC 5-28-3-1.
- 3) Indiana Port Commission - IC 8-10-1-3.
- 4) Indiana White River State Park Development Commission - IC 14-13-1-5.
- 5) State Fair Commission - IC 15-1.5-2-1.
- 6) Indiana Broadband Development Authority - Proposed

There are existing entities that are separate from the state and authorized to issue different types of debt including revenue bonds, moral obligation bonds, and contingent obligations. Long term debt obligations by authority are shown in the table below.

Authority Type of Debenture	Original Par Value	June 30,2004 Ending Balance
<u>State Office Building Commission</u> Payable from Possible State Appropriations	\$1.4 billion	\$836 million
<u>Transportation Finance Authority</u> Payable from Possible State Appropriations Contingent Obligations	\$1.9 billion \$652 million	\$1.6 billion \$218 million
<u>Recreation Commission</u> Payable from Possible State Appropriations	\$40 million	\$27 million
<u>Bond Bank</u> Payable from Possible State Appropriations Contingent Obligations	\$38 million \$493 million	\$34 million \$397 million
<u>Development Finance Authority</u> Contingent Obligations	\$68 million	\$50 million
Note: The table summarizes debt issued as of June 30,2003.		

Background for the Indiana Broadband Development Authority: The Indiana Broadband Development Authority would be governed by a five-member Board of Directors and subject to the review and approval of the Indiana Finance Authority (see above) for issuance of debt. The Board members include the State Budget Director and four other members appointed by the Governor. The Governor also appoints the Executive Director. The members are entitled to reimbursement for travel and other expenses. The Board exists to develop, implement, and operate the Broadband Development Program.

Among its powers, the Broadband Development Authority has the power to borrow money from the Indiana Development Finance Authority (IC 4-4-11-4), invest its money at the Broadband Development Authority's discretion, receive and distribute state and local funding, make loans and enter into joint venture and partnership arrangements with broadband developers and broadband operators, provide operating assistance to make broadband services more affordable, impose and collect charges fees and rentals.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under the bill, a political subdivision that is in default on principle or interest payments of an obligation issued by the Indiana Finance Authority or an entity controlled by the Authority will have payments due from state departments or agency withheld.

State Agencies Affected:

Local Agencies Affected:

Information Sources: State Budget Agency.

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